

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name OTTAWA COUNTY ROAD COMMISSION	County OTTAWA
Audit Date 9/30/04	Opinion Date 1/21/05	Date Accountant Report Submitted to State: 3/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

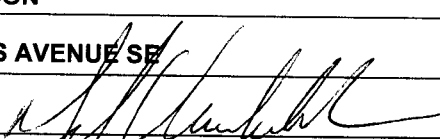
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI
Accountant Signature 		ZIP 49546	Date 03/31/05

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

January 21, 2005

Members of the Board of County
Road Commissioners
County of Ottawa, Michigan
Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Ottawa County Road Commission**, a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Ottawa County Road Commission** as of September 30, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ottawa County Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Ottawa County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ottawa County Road Commission (the "Commission"), we offer readers of the Ottawa County Road Commission financial statements this narrative review and analysis of the financial activities of this Component Unit of Ottawa County Michigan, for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. Michigan Transportation Fund

Revenues from the fund increased only 12.2% over 2003 for a total of \$16,737,457. This increase was due to the State of Michigan's change of the registration for lifetime trailer licensing.

2. Fringe Benefit Costs

Double-digit increases for health insurance program premiums continued in 2004 along with increased pension plan contribution.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Note that Ottawa County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Ottawa County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Ottawa County which reports the Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements' it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 10 through 14 of this report.

The Commission does not maintain proprietary or fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 15 through 24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

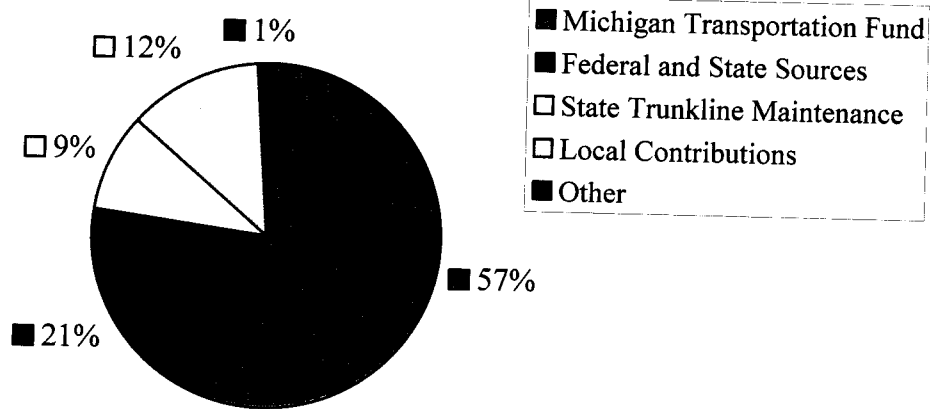
Ottawa County Road Commission Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Current and other assets	\$10,305,610	\$ 7,727,850
Capital assets	<u>44,493,975</u>	<u>58,863,470</u>
Total assets	<u>54,799,585</u>	<u>66,591,320</u>
Long-term liabilities outstanding	4,995,460	3,837,323
Other liabilities	<u>2,888,202</u>	<u>2,134,189</u>
Total liabilities	<u>7,883,662</u>	<u>5,971,512</u>
Net assets:		
Invested in capital assets, net		
of related debt	41,582,658	55,171,387
Restricted	4,992,777	4,516,667
Unrestricted	<u>340,488</u>	<u>931,754</u>
Total net assets	<u>\$46,915,923</u>	<u>\$60,619,808</u>

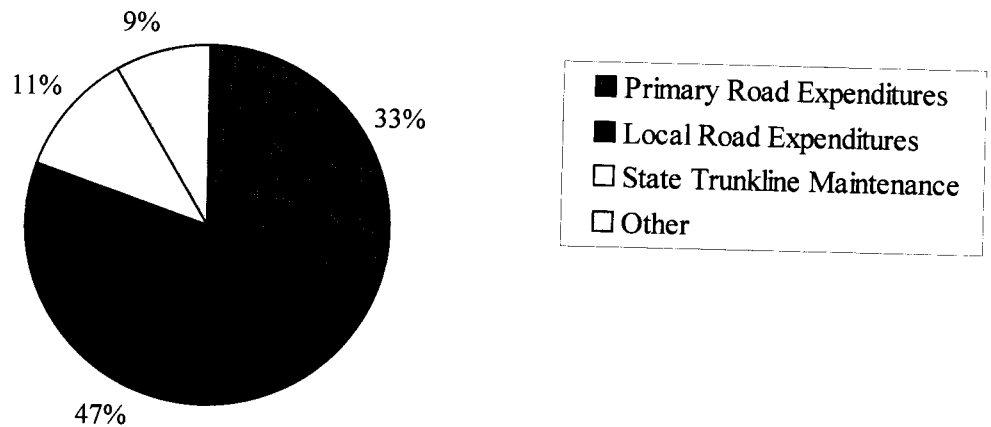
Ottawa County Road Commission Change in Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Revenue:		
Program revenue:		
Charges for services	\$ 2,927,874	\$ 2,685,532
Operating grants and contributions	15,197,287	16,659,431
Capital grants and contributions	7,381,513	9,872,717
General revenue:		
Interest income	23,030	19,875
Grants and contributions not restricted to specific programs	12,250	12,250
Other	<u>411,498</u>	<u>88,066</u>
Total revenue	<u>25,953,452</u>	<u>29,337,871</u>
Expenses:		
Public works	14,776,508	15,758,381
Debt Service	<u>147,545</u>	<u>129,621</u>
Total expenses	<u>14,924,053</u>	<u>15,888,002</u>
Increase in net assets before special items	11,029,399	13,449,869
Special items - sale of land	<u>-</u>	<u>254,016</u>
Increase in net assets	11,029,399	13,703,885
Net assets – beginning of year	<u>35,886,524</u>	<u>46,915,923</u>
 Net assets – end of year	 <u>\$ 46,915,923</u>	 <u>\$ 60,619,808</u>

2004 Revenues by Source - General Fund



2004 Expenditures - General Fund



Capital Assets and Debt Administration

Capital Assets

Major capital asset events during the current fiscal year included the following:

- Road equipment additions of \$1,165,413
- Infrastructure assets additions of \$14,790,876 which consist of construction of and improvements to the primary and local road system

Ottawa County Road Commission Capital Assets (net of depreciation)

	Governmental <u>Activities</u>
Land and improvements	\$ 1,367,182
Buildings	8,248,852
Road Equipment	3,275,431
Shop Equipment	153,226
Office Equipment	212,743
Infrastructure	
Primary Roads	29,009,991
Local Roads	<u>16,596,045</u>
Total	<u>\$58,863,470</u>

Additional information on the Commission's capital assets can be found in note 6 on page 23 of this report.

Long-term debt

Ottawa County Road Commission Outstanding Debt

	Governmental <u>Activities</u>
Compensated absences	\$ 653,098
Claims payable	108,398
Bonds payable	3,150,000
Equipment leases	<u>542,083</u>
Total	<u>\$4,453,579</u>

Additional information on the Commission's long-term debt can be found in Note 4 on page 21 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Commission's budget for the 2004-2005 fiscal year:

- According to the Michigan Department of Transportation estimates, the increase in the transportation fund will only be in the 2% area.
- Benefits, insurance, supplies and equipment are expected to increase 3% on average.

Financial Analysis of the Commission's Funds

Significant changes in original budget estimates were as follows:

1. Michigan Transportation revenues exceeded original state estimates which reflected a budget adjustment of \$1,527,000.
2. Township contributions and local expenditures were increased by 50% which reflected additional commitments made by townships for local work.
3. State trunkline maintenance revenues and expenditures were increased by 17% to recognize additional funding made available by the Michigan Department of Transportation prior to year end.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Ottawa County Road Commission, P.O. Box 739, Grand Haven, MI 49417.

BASIC FINANCIAL STATEMENTS

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

SEPTEMBER 30, 2004

ASSETS	General Fund	Adjustments	Statement of Net Assets
Cash and interest bearing deposits	\$ 165,147	\$ -	\$ 165,147
Investments	918,551	-	918,551
Accounts receivable			
State trunkline maintenance	377,074	-	377,074
Due on county road agreements	1,969,599	-	1,969,599
Motor vehicle highway funds	1,446,240	1,423,870	2,870,110
Other	197,091	-	197,091
Inventories			
Equipment material and parts	341,284	-	341,284
Road materials	512,691	-	512,691
Prepaid insurance	376,303	-	376,303
Land	-	1,367,182	1,367,182
Property and equipment - net of accumulated depreciation	-	11,890,252	11,890,252
Infrastructure - net of accumulated depreciation	-	45,606,036	45,606,036
Total assets	<u>\$6,303,980</u>	<u>60,287,340</u>	<u>66,591,320</u>
LIABILITIES			
Accounts payable	583,006	-	583,006
Accrued liabilities	458,944	-	458,944
Compensated absences payable	103,526	(103,526)	-
Advances			
State trunkline equipment purchase	303,662	-	303,662
State trunkline maintenance	162,435	-	162,435
County drain special assessments	9,886	-	9,886
Long-term liabilities			
Due within one year	-	616,256	616,256
Due after one year	-	3,837,323	3,837,323
Total liabilities	<u>1,621,459</u>	<u>4,350,053</u>	<u>5,971,512</u>
FUND BALANCE/NET ASSETS			
Fund balance			
Reserved			
Inventory	853,975	(853,975)	-
Prepaid insurance	376,303	(376,303)	-
Construction contract and equipment commitments	904,402	(904,402)	-
Unreserved	2,547,841	(2,547,841)	-
Undesignated	-	-	-
Total fund balance	<u>4,682,521</u>	<u>(4,682,521)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$6,303,980</u>		
Net assets:			
Investment in capital assets, net of related debt		55,171,387	55,171,387
Restricted		4,516,667	4,516,667
Unrestricted		931,754	931,754
Total net assets		<u>\$60,619,808</u>	<u>\$60,619,808</u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**Reconciliation of General Fund Balance Sheet
to Statement of Net Assets**

SEPTEMBER 30, 2004

Fund balances - General Fund	\$ 4,682,521
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.

Add - land	1,367,182
Add - net equipment and buildings	11,890,252
Add - net infrastructure	45,606,036

Other long-term assets are not available to pay for current-period expenditures and therefore are not recorded in the fund financial statements.

State shared revenues	1,423,870
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Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.

Deduct - bonds/leases payable	(3,692,083)
Deduct - compensated absences payable due after one year	(549,572)
Deduct - claims payable	(108,398)

Net assets of governmental activities	<u>\$ 60,619,808</u>
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The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCE**

YEAR ENDED SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Public works	\$ 14,068,525	\$ 1,689,856	\$ 15,758,381
Capital outlay	14,790,876	(14,790,876)	-
Debt Service			
Principal	511,549	(511,549)	-
Interest	129,621	-	129,621
Total expenditures/expenses	<u>29,500,571</u>	<u>(13,612,569)</u>	<u>15,888,002</u>
Program revenues			
Charges for services	<u>2,685,532</u>	-	<u>2,685,532</u>
Operating grants and contributions			
State transportation funds	<u>16,737,457</u>	<u>(78,026)</u>	<u>16,659,431</u>
Capital grants and contributions			
Federal and state sources	<u>9,872,717</u>	-	<u>9,872,717</u>
Net program revenue			<u>13,329,678</u>
General revenue			
Interest earned	19,875	-	19,875
Salvage sales	13,813	-	13,813
Other grants	12,250	-	12,250
Other	74,253	-	74,253
Other financing sources			
Proceeds/gain from sales of capital assets	254,016	-	254,016
Total general revenues and other financing sources	<u>374,207</u>	-	<u>374,207</u>
Net change in fund balance	169,342	<u>(169,342)</u>	-
Changes in net assets	-	<u><u>\$ 13,703,885</u></u>	13,703,885
Fund balance/net assets			
Beginning of year	<u>4,513,179</u>		<u>46,915,923</u>
End of year	<u><u>\$ 4,682,521</u></u>		<u><u>\$ 60,619,808</u></u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**Reconciliation of the General Fund Revenues, Expenditures
and Change in Fund Balances to the Statement of Activities**

YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balance - General Fund	\$ 169,342
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Amounts reported for *governmental activities* in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,284,268
Add - infrastructure purchases	14,790,876
Deduct - depreciation expense	(2,997,964)

Revenues and expenses in the statements of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.

Add - revenues accrued for the statement of activity	1,423,870
Deduct - revenues accrued in the statement of activity in the prior year which are recorded in the fund statement this year	(1,501,896)

Some expenditures reported in the fund financial statements do not require the use of current financial resources and therefore are not reported as expenses in the statement of activities.

Add - payment of principal on notes/leases	511,549
Add - payment of claims expense	19,175
Add - reductions to compensated absences	4,665

Change in net assets of governmental activities	<u>\$ 13,703,885</u>
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The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

YEAR ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue				
State aid				
Michigan transportation fund	\$ 15,420,000	\$ 16,500,000	\$ 16,737,457	\$ 237,457
Federal and state sources	3,794,000	3,794,000	6,205,127	2,411,127
State trunkline maintenance	2,300,000	2,683,755	2,685,532	1,777
Contributions				
County	12,250	12,250	12,250	-
Townships	2,500,000	3,737,750	3,667,590	(70,160)
Total contributions	2,512,250	3,750,000	3,679,840	(70,160)
Other revenue				
Salvage sales	-	-	13,813	13,813
Other	-	-	74,253	74,253
Interest earned	-	-	19,875	19,875
Total other revenue	150,000	115,500	107,941	(7,559)
Total revenue	24,176,250	26,843,255	29,415,897	2,572,642
Expenditures				
Primary Road				
Construction and heavy maintenance	-	-	11,051,855	(11,051,855)
Maintenance	-	-	3,172,486	(3,172,486)
Total primary road	11,212,000	11,800,000	14,224,341	(2,424,341)
Local road				
Construction and heavy maintenance	-	-	3,739,021	(3,739,021)
Maintenance	-	-	4,625,848	(4,625,848)
Local paving	-	-	896,828	(896,828)
Local gravel	-	-	250,226	(250,226)
Local culverts	-	-	265,758	(265,758)
Total local road	8,200,000	9,525,000	9,777,681	(252,681)
State trunkline maintenance	2,300,000	2,925,315	2,927,090	(1,775)
Other				
County drain assessments	-	-	123,726	(123,726)
Equipment expenses(net)	-	-	153,551	(153,551)
Administrative expense(net)	-	-	2,006,208	(2,006,208)
Capital outlay(net)	-	-	1,270,698	(1,270,698)
Depreciation expense	-	-	(1,623,894)	1,623,894
Principal repayment	-	-	511,549	(511,549)
Interest expense	-	-	129,621	(129,621)
Total other	2,345,000	2,578,566	2,571,459	7,107
Total expenditures	24,057,000	26,828,881	29,500,571	(2,671,690)
Revenues over (under) expenditures and other financing uses	119,250	14,374	(84,674)	(99,048)
Other financing sources				
Proceeds from the sale of land	230,000	257,066	254,016	(3,050)
Net change in fund balance	349,250	271,440	169,342	(102,098)
Fund balances, October 1, 2003	4,513,179	4,513,179	4,513,179	-
Fund balances, September 30, 2004	\$ 4,862,429	\$ 4,784,619	\$ 4,682,521	\$ (102,098)

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ottawa County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Ottawa County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Ottawa, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Ottawa County Road Commission, a discretely presented component unit of Ottawa County, and include the Road Commission General Operating Fund. The Ottawa County Road Commission has no component units.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission's General Operating Fund.

Basis of Presentation

Financial activities of the Road Commission are recorded in one fund.

Governmental Fund

General fund – this fund is used to account for all financial transactions including all financial resources and general operating expenditures.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, compensated absences, and claims and judgment expenditures not expected to be paid in the current year are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The general fund is considered a major governmental fund.

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Supervisor submits a proposed budget for the upcoming year to the Road Commission. The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts. The budget is prepared on the modified accrual basis of accounting.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

Cash and Interest Bearing Deposits

Cash and investment bearing deposits consist of demand deposits and certificates of deposit with original maturities of three months or less held by the Road Commission.

Investments

Investments include certificates of deposit and a cash management fund which are carried at fair value.

Inventory

Inventory, consisting of various operating parts, supplies and road material, is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

Net Assets Restricted

Net assets of \$4,516,667 are restricted for primary and local road construction and maintenance as required under state revenue sharing requirements. Of this balance, \$4,019,834 is restricted for primary roads while \$496,833 is restricted for local roads.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Infrastructure assets are being capitalized and depreciated beginning in fiscal year 2001 as indicated on the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended September 30, 2004, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

Compensated Absences

Vacation and sick leave payable out of expendable available resources in the General Operating Fund is accrued for the fund financial statement (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) and the long-term portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. Vacation leave is payable upon termination up to specific limits while 25% of sick leave is payable upon retirement up to maximum of 25% of 1,120 hours.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2004, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	65,147	1,355,095
Held by Ottawa County *		
Bank money markets	918,551	1,101,165
	<u>\$1,083,698</u>	<u>\$2,556,260</u>

*Deposits of the Road Commission held by Ottawa County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

3. RETIREMENT PLAN

Plan Description

The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Road Commission employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Plan Contributions

The Road Commission is required to contribute at an actuarially determined rate of 12.33 to 37.90 percent depending on bargaining unit; the current year amount was \$590,747. Participating employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Road Commission, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Road Commission.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

3. RETIREMENT PLAN (CONTINUED)

For the year ended September 30, 2004, the Road Commission's annual pension cost of \$590,747 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 118,486	100%	-
2003	458,375	100%	-
2004	590,747	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 28,000,821	\$ 28,783,338	\$ 782,517	97%	\$ 5,791,419	14%
12/31/02	27,392,001	30,418,765	3,026,764	90%	6,025,239	50%
12/31/03	28,199,845	33,490,840	5,290,995	84%	6,300,356	84%

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<u>Balance October 1, 2003</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Compensated absences	\$ 664,255	\$ -	\$ (11,157)	\$ 653,098	\$ 103,526
Bond payable, due in annual installments of \$450,000 through 2011 with interest paid at 3.35% to 3.375%	3,600,000	-	(450,000)	3,150,000	450,000
\$308,000 Equipment lease Volvo, through 2011, 3.14% due in monthly installments of \$3,807	292,924	-	(36,998)	255,926	38,179
\$312,754 Equipment lease through 2008 3.35% due in monthly installments of \$2,046	310,708	-	(24,551)	286,157	24,551
Claims payable	127,573	136,250	(155,425)	108,398	-
Totals	<u>\$4,995,460</u>	<u>\$136,250</u>	<u>\$(678,131)</u>	<u>\$4,453,579</u>	<u>\$616,256</u>

The annual requirements to amortize all debt outstanding as of September 30, 2004 (except compensated absences and claims payable), are as follows:

<u>Year Ending September 30,</u>	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 512,730	\$121,811
2006	513,948	104,961
2007	515,205	88,055
2008	800,200	69,991
2009	450,000	45,563
2010-2012	900,000	45,563
Total	<u>\$3,692,083</u>	<u>\$475,944</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

5. RISK MANAGEMENT

The Road Commission is exposed to lawsuits and claims made by individuals. In response to this exposure, the Road Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP). Participation in the MCRCSIP requires payment of premiums to the pool. The pool purchases commercial reinsurance on behalf of its members.

Due to the Road Commission's participation in this pool, the liability of the Road Commission relative to claims covered by the pool is limited to \$25,000 per occurrence.

The Road Commission's self-funded workers' compensation program contains stop-loss and coverage of \$300,000 per incident. This limits the commissions' responsibility for payment to \$300,000 per workers' compensation claim.

Settled claims for the Road Commission have not exceeded coverage during the past three years. There have been no significant reductions in insurance coverage during the past year.

The Road Commission's self-funded insurance claims that have been incurred through the end of the year include both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the government-wide statements as they are not expected to be liquidated with expendable available financial resources. Changes in the estimates are as follows:

	MRCSCR Liability Plan	Workers' Compensation Plan	Total
Estimated liabilities – October 1, 2002	\$ 62,098	\$ 110,245	\$ 172,343
Estimated claims incurred including changes in estimates	(6,640)	84,250	77,610
Claims paid	(32,931)	(89,449)	(122,380)
Estimated liability – September 30, 2003	22,527	105,046	127,573
Estimated claims incurred including changes in estimates	20,775	115,475	136,250
Claims paid	(43,302)	(112,123)	(155,425)
Estimated liability – September 30, 2004	\$ -	\$ 108,398	\$ 108,398

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

6. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance October 1, 2003	Additions	Deductions	Balance September 30, 2004
Capital assets not being depreciated:				
Land	\$ 1,292,315	\$ 74,867	\$ -	\$ 1,367,182
Capital assets being depreciated:				
Buildings	10,549,183	-	-	10,549,183
Road equipment	13,585,377	1,165,413	53,845	14,696,945
Shop equipment	510,172	13,456	-	523,628
Office equipment	943,743	30,532	-	974,275
Infrastructure				
Primary roads	19,746,534	11,051,855	-	30,798,389
Local roads	14,080,181	3,739,021	-	17,819,202
Total capital assets	60,707,505	16,075,144	53,845	76,728,804
Accumulated depreciation				
Buildings	2,018,868	281,463	-	2,300,331
Road equipment	10,224,116	1,251,243	53,845	11,421,514
Shop equipment	346,121	24,281	-	370,402
Office equipment	694,626	66,906	-	761,532
Infrastructure				
Primary roads	945,983	842,415	-	1,788,398
Local roads	691,501	531,656	-	1,223,157
Total accumulated depreciation	14,921,215	2,997,964	53,845	17,865,334
Net capital assets	\$45,786,290	\$13,077,180	\$ -	\$58,863,470

7. PENDING LITIGATION

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

NOTES TO FINANCIAL STATEMENTS

9. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$6,120,203 of federal/state dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$500,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

10. POST-EMPLOYMENT BENEFITS

In addition to pension benefits, retirees receive an employer-paid benefit toward health insurance premiums for the retiree. The retiree benefit amount is based on health insurance costs. The employer's contributions cease when the employee becomes eligible for Medicare benefits. The Road Commission has 9 participants that are eligible to receive benefits. The benefits are financed on a pay-as-you-go basis and during the fiscal year ended September 30, 2004 the Road Commission incurred \$40,455 of post-employment benefit expense.

11. COMMITMENTS

As of September 30, 2004, the Commission had entered into contracts for construction of various projects for approximately \$904,402.

* * * * *

OPERATING FUND SCHEDULES

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 2004

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Fund balance, October 1, 2003	\$ 4,107,007	\$ 65,684	\$ 340,488	\$ 4,513,179
Revenues over expenditures and other financing uses for the year				
Revenues and other financing sources	18,730,195	10,673,452	266,266	29,669,913
Expenditures and other financing uses	<u>19,192,001</u>	<u>10,633,570</u>	<u>(325,000)</u>	<u>29,500,571</u>
Fund balance, September 30, 2004	<u>\$ 3,645,201</u>	<u>\$ 105,566</u>	<u>\$ 931,754</u>	<u>\$ 4,682,521</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

YEAR ENDED SEPTEMBER 30, 2004

	Primary Road	Local Road	County Road	Total
Revenues				
Michigan Transportation Fund				
Engineering	\$ -	\$ -	\$ -	\$ -
Primary road	9,674,158	-	-	9,674,158
Local road	-	4,390,121	-	4,390,121
Primary urban road	1,629,180	-	-	1,629,180
Local urban road	-	1,043,998	-	1,043,998
Snow removal	-	-	-	-
Transfer	(1,500,000)	1,500,000	-	-
Federal and state sources	6,133,696	71,431	-	6,205,127
Trunkline maintenance	2,685,532	-	-	2,685,532
County appropriation	-	-	12,250	12,250
Township contributions	-	3,667,590	-	3,667,590
Rents/sales	-	-	-	-
Salvage sales	13,813	-	-	13,813
Interest earned	19,563	312	-	19,875
Other revenues	74,253	-	-	74,253
Other financing sources				
Sales of fixed assets	-	-	254,016	254,016
Note/lease proceeds	-	-	-	-
Total revenues	<u>\$ 18,730,195</u>	<u>\$ 10,673,452</u>	<u>\$ 266,266</u>	<u>\$ 29,669,913</u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF EXPENDITURES

YEAR ENDED SEPTEMBER 30, 2004

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Expenditures				
Primary road				
Construction and heavy maintenance	\$ 11,051,855	\$ -	\$ -	\$ 11,051,855
Maintenance	3,172,486	-	-	3,172,486
Local road				
Construction and heavy maintenance	-	3,739,021	-	3,739,021
Maintenance	-	4,625,848	-	4,625,848
Local paving	-	896,828	-	896,828
Local gravel	-	250,226	-	250,226
Local Culvert	-	265,758	-	265,758
State trunkline maintenance	2,927,090	-	-	2,927,090
County drain assessments	73,619	50,107	-	123,726
Equipment expense (net)	70,004	83,547	-	153,551
Administrative expense (net)	1,283,973	722,235	-	2,006,208
Capital outlay (net)	-	-	1,270,698	1,270,698
Depreciation	(28,196)	-	(1,595,698)	(1,623,894)
Debt service				
Principal repayment	511,549	-	-	511,549
Interest expense	129,621	-	-	129,621
Total expenditures	<u><u>\$ 19,192,001</u></u>	<u><u>\$ 10,633,570</u></u>	<u><u>\$ (325,000)</u></u>	<u><u>\$ 29,500,571</u></u>

OTTAWA COUNTY ROAD COMMISSION
(a Component Unit of Ottawa County)

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

YEAR ENDED SEPTEMBER 30, 2004

Salaries	
Administrative	\$ 511,794
General engineering	174,620
Inspection and permits	107,018
Traffic	69,364
Plats and drains	44,735
Weighmaster	27,810
Videotaping	1,345
Planning	6,173
Watershed	12,640
Advertising	16,536
Commissioners' expense	
Salaries	24,500
Other	3,618
Contractual services	40,060
Depreciation	87,388
Engineering supplies	13,515
Medical	3,418
Communications	51,769
Maintenance of office equipment	26,878
Office supplies	23,115
Postage	6,889
Dues and subscriptions	43,155
Travel and conference	19,697
Legal and professional	10,278
Building expense	53,837
Equipment expense	71,043
Distributive expense	617,537
	<hr/>
Total administrative expenditures	<u><u>\$ 2,068,732</u></u>